

Walk, Roger A.
From: Desel, Paula
Sent: Thursday, January 03, 2002 5:06 PM
To: Solana, Rick P.
Cc: Walk, Roger A.; Patskan, George J.
Subject: FW: Tobacco rebel takes radical approach

Rick, the Lebow quote that Amy pulled out below raises the same issue you raised on our call today.

-----Original Message-----

From: Lenling, Amy
Sent: Thursday, January 03, 2002 11:38 AM
To: 'jeffrey_richman@aporter.com'; Neidle, Bruce L.; Arwady, Marjorie D.; Carchman, Loreen; Cardich, Claire; Counts, Mary Ellen; Desel, Paula; Lewis, Jane Y.; Murillo, Joe; Nelson, Christopher (PMMC); Osborne, Kevin (PMMC Legal); Patskan, George J.; Podraza, Ken F.; Reininghaus, Wolf; Roethlig, Hans; Suter, Eric; Walk, Roger A.; Whidden, Roger
Subject: Tobacco rebel takes radical approach

The Associated Press article below on Vector Tobacco's Omni cigarette mentions that Vector will seek FDA approval to market their yet to be released low-nicotine cigarette as a stop-smoking aid after the product hits the market. The article also mentions that Vector scientists are working on removing more carcinogens and carbon monoxide. LeBow is quoted as saying "Once you prove you have a safer product, how can you not put that on every product you have?"

NC Tobacco rebel takes radical approach (AP)

By Emery P. Dalesio Associated Press Writer

Posted on January 02, 2002

DURHAM, N.C. -- Bennett LeBow upended America's big cigarette makers five years ago when his Liggett Group became the first to disclose documents showing the industry knew smoking was deadly and addictive.

"It's a product that, no question about it, kills people," said LeBow, chairman and chief executive of Liggett parent Vector Group Ltd.

Now Big Tobacco is paying off a \$206 billion lawsuit settlement with dozens of states for the cost of treating sick smokers. And in the aftermath of the 1998 settlement, LeBow started a new cigarette company, Vector Tobacco, built around the country's greater awareness of smoking's risks.

Vector Tobacco's products include one that's new to the market -- Omni, a brand that promises fewer cancer-causing chemicals in every puff -- and another expected next year and featuring a genetically engineered, nearly nicotine-free tobacco.

The company, based in Durham, launched Omni, priced on par with Philip Morris' industry leading Marlboro, in November with an advertising campaign. In it, LeBow says "there is no such thing as a safe cigarette," but that "if you do smoke, Omni is the best alternative."

It's not a safe cigarette, just less hazardous, company officials emphasize. Company scientists are working on removing more carcinogens and carbon monoxide, a key contributor to heart disease, from cigarette smoke.

Philip Morris, R.J. Reynolds Tobacco Holdings Inc. and Brown & Williamson Corp. also are launching brands they say pump out lower levels of nitrosamines, considered by some scientists to be the worst cancer-causing compounds in tobacco.

Vector Tobacco's approach is different.

Standing apart from Liggett, the company is designed to respond to smokers' health fears, carve out a niche in a new market, and force its bigger rivals to catch up -- sort of like the competitive pressure created after the first carmaker installed lifesaving airbags.

"I think the same thing applies here," LeBow said. "Once you prove you have a safer product, how can you not put that on every product you have?"

Public health groups are skeptical. A coalition including the American Cancer Society have asked the Food and Drug Administration to require tobacco companies to prove claims that some cigarettes are safer than others.

"What they're doing is asking smokers to take their word for it that it's less dangerous. And as we've seen from tobacco companies, it's dangerous to trust them," said Barry Jackson, a Nashville, Tenn.-based cancer society lobbyist.

The groups want sales of the new cigarettes stopped until their claims are proven by independent, third-party testing.

LeBow said after Vector's low-nicotine cigarette hits the market next year, the company will submit its research to the FDA and pursue regulatory approval to sell the product as a stop-smoking aid.

LeBow won't describe Vector Tobacco's financial prospects.

Profits last year for the Miami-based Vector Group were \$174 million; R.J. Reynolds, the country's second-largest cigarette maker after Philip Morris, earned \$404 million during 2000.

One financial industry researcher who has tracked the Vector Group believes the alternative smokes could make about \$250 million a year by capturing about 2 percent to 3 percent of the U.S. tobacco market.

"These are two new, revolutionary cigarette products," said Joel Luton, research director at APS Financial Corp. in Austin, Tex. Friends who have sampled Omni say it tastes like a conventional smoke, he said, an important element when considering sales potential.

On the other hand, Vector is trying to steal market share from industry giants Philip Morris and RJR. The keys, Luton said, are whether Vector will build consumer demand while expanding the number of stores Omni and the second, as-yet-unnamed brand are sold.

LeBow promised to move the new cigarette technologies into Liggett, which now holds about 2 percent of the U.S. market for conventional smokes.

Selling cigarettes without addictive nicotine could lead buyers to quit shelling out for Vector or Liggett smokes, LeBow admitted.

But the world's smokers won't lose the habit for decades, he predicted. If Vector is able to become the dominant company in a reshaped industry, and profits are reaped for a decade, that's fine with him.

LeBow owns about 38 percent of the company; billionaire financier Carl Icahn owns about 22 percent.

Though anti-smoking activists recognize that Vector Tobacco's parent company helped break down the industry's claims that cigarettes weren't addictive and unhealthy, previous experience with low-tar smokes shows skepticism is needed, Jackson said.

Big Tobacco introduced low-tar cigarettes in the 1970s, implying they were healthier than regular brands, he said. People defeated their own best intentions by smoking more low-tar cigarettes or taking the smoke deeper into their lungs, Jackson said.

"So now, here we go on to round two with Vector and others trying to bring safer cigarettes onto the market," Jackson said.

LeBow said he supports FDA regulations and he's only too willing for health groups or anyone else to test whether Omni produces measurably fewer carcinogens.

Meanwhile, "it can't be any worse to have anything out there with reduced carcinogens."